

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Honor	County Benzie
Audit Date 12/31/04	Opinion Date 3/1/05	Date Accountant Report Submitted to State: 6/24/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) J L Stephan Co, PC			
Street Address 862 E. Eighth St.		City Traverse City	State MI
		ZIP 49686	
Accountant Signature 			Date 6/24/05

Village of Honor

Benzie County, Michigan

Financial Statements

And Supplemental Information

December 31, 2004

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FINANCIAL SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty Szasz, CPA
David Skibowski, Jr., CPA

INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Honor
Honor, MI 49640

We have audited the accompanying financial statements of the governmental activities of the Village of Honor as of and for the year ended December 31, 2004 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Village as of December 31, 2004 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by provisions of *GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2002. The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

The budgetary comparison information on pages 17-19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

J L Stephan Co PC

March 1, 2005

Village of Honor
Government Wide
Statement of Net Assets
December 31, 2004

Exhibit A

	<i>Governmental Activities</i>	<i>Business Type Activities</i>	<i>Total</i>
Assets			
Cash and Cash Equivalents	\$ 147,449	\$ 84,928	\$ 232,377
Investments	-	-	-
Receivables	22,970	15,919	38,889
Inventory	3,875	-	3,875
Capital Assets	55,437	305,802	361,239
<i>Total Assets</i>	<u>229,731</u>	<u>406,649</u>	<u>636,380</u>
Liabilities			
Accounts Payable	-	-	-
Accrued and Other Liabilities	-	-	-
Deferred Revenue	13,824	-	13,824
Non-Current Liabilities			-
Due within one year	-	-	-
Due within more than one year	-	-	-
<i>Total Liabilities</i>	<u>13,824</u>	<u>-</u>	<u>13,824</u>
Net Assets			
Invested in Capital Assets - net of related debt	55,437	305,802	361,239
Restricted			-
Capital Projects	-	82,746	82,746
Unrestricted	160,470	18,101	178,571
<i>Total Net Assets</i>	<u>\$ 215,907</u>	<u>\$ 406,649</u>	<u>\$ 622,556</u>

The Notes to Financial Statements are an integral part of this statement

Exhibit B

The Notes to Financial Statements are an integral part of this statement

Village of Honor*Exhibit C**Governmental Funds**Balance Sheet**December 31, 2004*

	<i>General</i>	<i>Major Streets</i>	<i>Major Streets</i>	<i>Total</i>
Assets				
Cash - Unrestricted	\$ 92,958	\$ 31,923	\$ 22,568	\$ 147,449
Taxes & Fees Receivable	13,824	-	-	13,824
Inventory	3,875	-	-	3,875
Due from Other Funds	-	-	-	-
Due from Others	4,242	3,766	1,138	9,146
<i>Total Assets</i>	<u>114,899</u>	<u>35,689</u>	<u>23,706</u>	<u>174,294</u>
Liabilities				
Due to Other Funds	-	-	-	-
Deferred Revenue	13,824	-	-	13,824
<i>Total Liabilities</i>	<u>13,824</u>	<u>-</u>	<u>-</u>	<u>13,824</u>
Fund Balances				
Fund Balances - Unreserved	101,075	35,689	23,706	160,470
<i>Total Fund Balances</i>	<u>\$ 101,075</u>	<u>\$ 35,689</u>	<u>\$ 23,706</u>	<u>160,470</u>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>				
Capital Assets of \$202,391 net of accumulated depreciation of (\$146,954) are not financial resources and are not reported in the funds				<u>55,437</u>
<i>Net Assets of Governmental Activities</i>				<u>\$ 215,907</u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Governmental Fund
Statement of Revenue, Expenditures
and Changes on Fund Balance
For the Year Ended December 31, 2004

Exhibit D

	<i>General Fund</i>	<i>Major Streets Fund</i>	<i>Local Streets Fund</i>	<i>Total Governmental Funds</i>
<i>Revenues</i>				
Property Taxes	\$ 66,183	\$ -	\$ -	\$ 66,183
Licenses & Permits	555	-	-	555
State Grants	24,322	26,200	8,514	59,036
Charges for Services	6,005	-	-	6,005
Interest Earned	377	140	86	603
Equipment Rentals	23,080	-	-	23,080
Refunds	11,407	-	-	11,407
Miscellaneous Income	50	200	-	250
<i>Total Revenues</i>	<u>131,979</u>	<u>26,540</u>	<u>8,600</u>	<u>167,119</u>
<i>Expenditures</i>				
General Government	41,989	-	-	41,989
Public Safety	1,545	-	-	1,545
Public Works	58,838	26,931	16,652	102,421
Health and Welfare	-	-	-	-
Community and Economic Dev.	828	-	-	828
Recreation and Culture	2,261	-	-	2,261
Other Functions	3,303	-	-	3,303
Interest on Long-Term Debt	-	-	-	-
<i>Total Expenditures</i>	<u>108,764</u>	<u>26,931</u>	<u>16,652</u>	<u>152,347</u>
<i>Excess Revenues Over (Under)</i>				
<i>Expenditures</i>	23,215	(391)	(8,052)	14,772
<i>Other Financing Sources (Uses)</i>				
Operating Transfers In	-	10,000	11,351	21,351
Operating Transfers (Out)	(35,000)	(6,351)	-	(41,351)
	<u>(35,000)</u>	<u>3,649</u>	<u>11,351</u>	<u>(20,000)</u>
<i>Excess of Revenues and Other Sources Over (Under)</i>				
<i>Expenditures and Other Uses</i>	(11,785)	3,258	3,299	(5,228)
Fund Balance - Beginning	<u>112,860</u>	<u>32,431</u>	<u>20,407</u>	<u>165,698</u>
Fund Balance - Ending	<u>\$ 101,075</u>	<u>\$ 35,689</u>	<u>\$ 23,706</u>	<u>\$ 160,470</u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor

Exhibit E

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2004*

Change in Fund Balance - Total Governmental Funds (Exhibit D) \$ (5,228)

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$12,027) is exceeded by depreciation (\$13,668) in the current period. (2,966)

Trade-in Value of old lawn mower 1,325

Unrecovered book value of assets scrapped (370)

Change in net assets of governmental activities (Exhibit B) \$ (7,239)

Village of Honor
Proprietary Fund
Statement of Net Assets
December 31, 2004

Exhibit F

	<u>Sewer System</u>
Assets	
<i>Current Assets</i>	
Cash-Unrestricted	\$ 24,597
Due from County	6,016
Accounts Receivable	<u>9,903</u>
<i>Total Current Assets</i>	40,516
<i>Non-current Assets</i>	
Cash-Restricted	60,331
Capital Assets - net	<u>305,802</u>
<i>Total Non-current Assets</i>	<u>366,133</u>
<i>Total Assets</i>	<u>406,649</u>
Liabilities	
Bonds Payable	-
Due to Other Funds	<u>-</u>
<i>Total Liabilities</i>	<u>-</u>
Net Assets	
Invested in Capital Assets - net of debt	305,802
Restricted for Capital Outlay	60,331
Restricted for Capital Improvements	22,415
Unrestricted	<u>18,101</u>
<i>Total Net Assets</i>	<u><u>\$ 406,649</u></u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Proprietary Fund
Statement of Revenue, Expenses
and Changes in Net Assets
For the Year Ended December 31, 2004

Exhibit G

	<u>Sewer System</u>
<i>Revenues</i>	
Water & Sewer Sales	\$ 51,662
Equipment Rental	169
Miscellaneous	-
	<u> </u>
<i>Total Revenues</i>	51,831
<i>Operating Expenses</i>	
Salaries and Wages	11,304
Operating Supplies	3,101
Contract Services	4,624
Insurance/Audit	3,155
Printing & Publishing	135
Utilities	3,032
Repairs and Maintenance	-
Rentals	6,476
Miscellaneous	588
Depreciation	17,413
	<u> </u>
<i>Total Operating Expenses</i>	49,828
<i>Operating Income (Loss)</i>	2,003
<i>Non-Operating Revenues (Expenses)</i>	
Capital Improvement Charges	22,415
Interest Earned	1,093
Tree Sales	29,903
Insurance Refund	12,167
Bond Interest	(3,700)
	<u> </u>
<i>Total Non-Operating Revenues (Expenses)</i>	61,878
<i>Income (Loss) Before Transfers</i>	63,881
Operating Transfer In	20,000
Operating Transfer (Out)	-
	<u> </u>
<i>Net Operating Transfers</i>	20,000
<i>Net Income (Loss)</i>	83,881
Net Assets - Beginning of Year	322,768
	<u> </u>
Net Assets - End of Year	<u><u>\$ 406,649</u></u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Proprietary Fund
Statement of Cash Flows
For the Year Ended December 31, 2004

Exhibit H

	<u>Sewer System</u>
<i>Cash Flows from Operating Activities</i>	
Operating income (loss)	\$ 2,003
<i>Adjustments to reconcile operating income to net cash provided by operating activities:</i>	
Depreciation	17,413
Capital Improvement Charges	22,415
Gain on sale of fixed assets	29,903
Insurance Refund	12,167
Operating transfer in	20,000
<i>(Increase) decrease in current assets</i>	
Accounts Receivable	(1,665)
<i>Increase (decrease) in current liabilities</i>	
Accounts payable	-
Due to others	-
<i>Net Cash Flows From Operating Activities</i>	<u>102,236</u>
<i>Cash Flows from Capital and Related Financing Activities</i>	
Bond principal	(74,000)
Bond interest	(3,700)
Acquisition of capital assets	<u>(15,480)</u>
<i>Net cash flows from capital & related financing activities</i>	(93,180)
<i>Cash Flows from Investing Activities</i>	
Interest Income	<u>1,093</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	10,149
<i>Cash and cash equivalents at beginning of year</i>	<u>74,779</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 84,928</u></u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Notes to Financial Statements
December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Honor have been prepared in conformity with the modified cash basis of accounting as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Effective July 1, 2003, the Village adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in these statements include the following:

- Depreciation on capital assets of the Village.
- Financial statements using the accrual basis of accounting for all the Village's activities as adjusted for capital assets and depreciation.

A. Reporting Entity

The Village of Honor was incorporated in 1914 and is located in Benzie County, Michigan. The Village operates under a charter adopted January 30, 1915, and is governed by an elected President-Council form of government. The Village population as of the 2000 census was 299 and the current taxable valuation is \$7,593,869.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, no required organizations have been omitted from these financial statements.

B. Government –Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Village of Honor
Notes to Financial Statements
December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village collects property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The County pays the Village for uncollected taxes from the proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect. Delinquent real property taxes receivable are offset by deferred revenue on the Village's balance sheet, as these accounts are not normally received within sixty days of year-end, and are therefore not available to finance current operations.

The local unit reports the following major governmental funds:

General Fund - This Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, and other intergovernmental revenues.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the Village are the Major and Local Street Funds.

Village of Honor
Notes to Financial Statements
December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The local unit reports the following major proprietary fund:

Enterprise Funds – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Sanitary Sewage Disposal fund is operated with the intention that the cost of providing sewer services to the public will be financed or recovered primarily through charges to users.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are changes between the government's sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services, including tap fees intended to recover current costs such as labor and material to hook up new customers. The portion of charges intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Accounts Receivable - Accounts Receivable are recorded in the Sewer Fund at the time customers are billed for current services. Uncollected delinquent accounts are placed on the customer's tax bill in the summer and any amounts not collected by the village are turned over to the County.

Village of Honor
Notes to Financial Statements
December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories - Proprietary Fund types reflect year-end inventory values on their respective balance sheets. General Fund inventories consist of garbage bags to be resold and are recorded at cost.

Restricted Assets – The revenue bonds of the enterprise fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and bond reserve. These amounts have been classified as restricted assets.

Capital Assets – capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation has been provided on these fixed assets using the straight line method over there estimated useful lives.

- | | |
|----------------------------------|----------|
| • Furniture and Office Equipment | 5 years |
| • Maintenance Equipment | 7 years |
| • Park Equipment and Structures | 10 years |
| • Buildings and Improvements | 30 years |

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

The General Fund and Special Revenue Fund types are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and shown as amended by the Village. The approved budgets of the Village for these budgetary funds were adopted at the activity level.

Encumbrance accounting is not used and appropriations normally lapse at year-end.

Village of Honor
Notes to Financial Statements
December 31, 2004

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued

Budget Compliance

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended December 31, 2004, the Village had expenditures in excess of amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund: Elections	\$ 625	\$ 633	\$ (8)
General Fund: Parks and Recreation	2,250	2,261	(11)

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943 as amended by act No. 217, Public Acts of 1982 and Public Act 196 of 1997, states the Village, by resolution, may authorize the Treasurer to invest surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
4. In United States government or Federal agency obligation repurchase agreements.
5. In banker's acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Types of Deposits and Investments

The Village maintains all its surplus funds with local banks in the form of savings/checking accounts and certificates of deposit. Interpreting FDIC rules regarding the \$100,000 insurance limit to apply separately to the demand and time deposits of public units, GASB statement 3 risk disclosures for the Village are as follows:

<u>Deposit</u>	<u>Carrying Amount</u>
FDIC Insured	\$ 100,000
Uninsured	<u>132,376</u>
Total Deposits	<u><u>\$ 232,376</u></u>

Village of Honor
Notes to Financial Statements
December 31, 2004

NOTE 4 – SUMMARY OF CAPITAL ASSETS

Capital asset activity or the primary government for the current year is summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 2,889	\$ -	\$ -	\$ 2,889
<i>Capital Assets Being Depreciated</i>				
Buildings	56,427	4,702	-	61,129
Equipment	<u>139,863</u>	<u>7,325</u>	<u>8,815</u>	<u>138,373</u>
	<u>196,290</u>	<u>12,027</u>	<u>8,815</u>	<u>199,502</u>
<i>Less: Accumulated Depreciation</i>				
Buildings	(54,546)	(1,985)	-	(56,531)
Equipment	<u>(87,185)</u>	<u>(11,683)</u>	<u>(8,445)</u>	<u>(90,423)</u>
	<u>(141,731)</u>	<u>(13,668)</u>	<u>(8,445)</u>	<u>(146,954)</u>
<i>Net Capital Assets being Depreciated</i>	<u>54,559</u>	<u>(1,641)</u>	<u>370</u>	<u>52,548</u>
<i>Total Capital Assets of Governmental Activities – Net of Depreciation</i>	<u>\$ 57,448</u>	<u>\$ (1,641)</u>	<u>\$ 370</u>	<u>\$ 55,537</u>

Business Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Sewage System	\$ 610,784	\$ 15,480	\$ -	\$ 626,264
Equipment	<u>33,063</u>	<u>-</u>	<u>-</u>	<u>33,063</u>
Total Cost	643,847	15,480	-	659,327
Less: Accumulated Depreciation	<u>(336,112)</u>	<u>(17,413)</u>	<u>-</u>	<u>(353,525)</u>
Net Book Value	<u>\$ 307,735</u>	<u>\$ (1,933)</u>	<u>\$ -</u>	<u>\$ 305,802</u>

Village of Honor
Notes to Financial Statements
December 31, 2004

NOTE 6 – LONG TERM DEBT

1972 Sewer System Revenue Bond

Revenue Bond Issue of \$300,000. Principal payments are due January 1 each year varying from \$2,000 to \$15,000 with the final payment due in the year 2011. Interest payments at the rate of 5% are due semi-annually January 1 and July 1.

Summary of Bond Transactions

Beginning Balance	\$ 74,000
New Issues	-
Principal Payments	
Regular for 2004	12,000
Additional/Early	<u>62,000</u>
Balance at December 31, 2004	<u>\$ -</u>

NOTE 8 – RESTRICTED RETAINED EARNINGS

Restricted Retained Earnings represents monies set aside in the Sewer Fund for specific purposes summarized as follows:

Sewer Capital Outlay	\$ 60,331
Sewer Capital Improvements	<u>22,415</u>
	<u>\$ 82,746</u>

NOTE 9 – RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Also, the Village carries worker's compensation insurance with The Accident Fund of Michigan. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Honor
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2004

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 112,860	\$ 112,860	\$ 112,860	\$ -
<i>Resources (Inflows)</i>				
Property Taxes	55,000	55,000	66,183	11,183
Licenses & Permits	300	300	555	255
State Shared Revenue	24,000	24,000	24,322	322
Charges for Services	100	100	805	705
Garbage Bag Sales	6,000	6,000	5,200	(800)
Interest Earned	800	800	377	(423)
Equipment Rentals	21,010	21,010	23,080	2,070
Refunds	100	11,500	11,407	(93)
Miscellaneous Income	25	25	50	25
Transfers from Other Funds	-	-	-	-
<i>Total Available for Appropriation</i>	<u>220,195</u>	<u>231,595</u>	<u>244,839</u>	<u>13,244</u>
<i>Charges to Appropriations (Outflows)</i>				
<i>General Government</i>				
Village Council	15,135	15,135	14,061	1,074
Elections	625	625	633	(8)
Clerk	11,230	11,230	10,294	936
Treasurer	4,450	4,450	2,864	1,586
Village Hall & Grounds	7,600	21,072	14,137	6,935
<i>Public Safety</i>				
Fire Department	3,500	3,500	1,545	1,955
<i>Public Works</i>				
General Public Works	44,800	44,800	35,897	8,903
Highways, Streets & Bridges	7,000	9,000	8,901	99
Street Lights	9,000	9,000	7,731	1,269
Sanitation	11,500	11,500	6,309	5,191
<i>Community & Economic Development</i>				
Zoning	930	930	828	102
Parks & Recreation	2,250	2,250	2,261	(11)
<i>Other Expenditures</i>				
Legal	7,800	7,800	3,303	4,497
Equipment Rental	100	100	-	100
Contingencies	20,000	15,928	-	15,928
Miscellaneous	-	-	-	-
Transfers to Other Funds	35,000	35,000	35,000	-
<i>Total Charges to Appropriations</i>	<u>180,920</u>	<u>192,320</u>	<u>143,764</u>	<u>48,556</u>
 Budgetary Fund Balance	 <u>\$ 39,275</u>	 <u>\$ 39,275</u>	 <u>\$ 101,075</u>	 <u>\$ 61,800</u>

Notes to Financial Statements are an integral part of this statement

Village of Honor
Budgetary Comparison Schedule
Major Streets Fund
For the Year Ended December 31, 2004

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 32,431	\$ 32,431	\$ 32,431	\$ -
<i>Resources (Inflows)</i>				
State Gas & Weight	20,000	20,000	25,329	5,329
State Metro Act	750	750	871	121
Interest Earned	350	350	140	(210)
Miscellaneous Income	-	-	200	200
Transfers from Other Funds	10,000	10,000	10,000	-
<i>Total Available for Appropriation</i>	<u>63,531</u>	<u>63,531</u>	<u>68,971</u>	<u>5,440</u>
<i>Charges to Appropriations (Outflows)</i>				
Construction	20,000	16,000	-	16,000
Non-Motorized	1,500	1,500	900	600
Routine Maintenance				
Salaries and Wages	2,500	2,500	1,714	786
Road Maintenance Supplies	1,000	1,000	335	665
Equipment Rental	4,800	4,800	4,033	767
Contract Services	9,000	9,000	11,744	(2,744)
Miscellaneous	-	-	-	-
Winter Maintenance				
Salaries and Wages	1,600	3,100	1,531	1,569
Road Maintenance Supplies	300	300	261	39
Equipment Rental	4,000	6,500	4,836	1,664
Contract Services	500	500	250	250
Miscellaneous				
Traffic				-
Supplies	100	100	-	100
Equipment Rental	30	30	-	30
Labor	25	25	-	25
Administration				
Audit and Insurance	1,600	1,600	1,327	273
Transfers to Other Funds	6,000	6,000	6,351	(351)
<i>Total Charges to Appropriations</i>	<u>52,955</u>	<u>52,955</u>	<u>33,282</u>	<u>19,673</u>
Budgetary Fund Balance	<u>\$ 10,576</u>	<u>\$ 10,576</u>	<u>\$ 35,689</u>	<u>\$ 25,113</u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Budgetary Comparison Schedule
Local Streets Fund
For the Year Ended December 31, 2004

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 20,407	\$ 20,407	\$ 20,407	\$ -
<i>Resources (Inflows)</i>				
State Gas & Weight	6,700	6,700	7,643	943
State Metro Act	750	750	871	121
Interest Earned	150	150	86	(64)
Miscellaneous Income	-	-	-	-
Transfers from Other Funds	11,000	11,000	11,351	351
<i>Total Available for Appropriation</i>	<u>39,007</u>	<u>39,007</u>	<u>40,358</u>	<u>1,351</u>
<i>Charges to Appropriations (Outflows)</i>				
Construction	-	-	-	-
Non-Motorized	1,500	1,500	-	1,500
Routine Maintenance				
Salaries and Wages	1,500	1,500	1,574	(74)
Road Maintenance Supplies	500	500	562	(62)
Equipment Rental	4,000	4,000	3,425	575
Contract Services	4,000	1,000	500	500
Miscellaneous	-	-	-	-
Winter Maintenance				
Salaries and Wages	1,500	2,500	1,457	1,043
Road Maintenance Supplies	400	400	259	141
Equipment Rental	4,000	6,000	4,472	1,528
Contract Services	500	500	-	500
Miscellaneous				
Traffic				-
Supplies	100	100	-	100
Equipment Rental	30	30	-	30
Labor	25	25	-	25
Administration				
Audit and Insurance	1,600	6,600	4,403	2,197
Transfers to Other Funds	-	-	-	-
<i>Total Charges to Appropriations</i>	<u>19,655</u>	<u>24,655</u>	<u>16,652</u>	<u>8,003</u>
Budgetary Fund Balance	<u>\$ 19,352</u>	<u>\$ 14,352</u>	<u>\$ 23,706</u>	<u>\$ 9,354</u>

The Notes to Financial Statements are an integral part of this statement

OTHER INFORMATION (UNAUDITED)

Village of Honor

Comments and Recommendations

We have audited the combined financial statements of the Village of Honor for the year ended December 31, 2004 and issued our report thereon dated March 1, 2005. As part of our examination, we considered the Village's internal control structure. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole. Because the study and evaluation were only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all of your accounting procedures and therefore, would not necessarily disclose all weaknesses in the system.

In a continuing effort to improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for you to consider.

Budgeting

The budget summary should reflect the original adopted budget, budget amendments and the final amended amounts. One-sided amendments should not be made unless specifically noted in the minutes to be against the budgeted fund balance. Normally, any amendment increase should be offset by a corresponding decrease of another budget item.

Any and all budget amendments should be properly reflected in the meeting and board minutes. The clerk should be responsible for keeping a summary of all amendments and the resulting change in budgeted amounts. It is extremely difficult to follow original budgeted amounts and the final amended budget on sheets with amounts crossed out. On the General Fund Budget Summary sheets, we noted an increase in a budgeted revenue and expenditure that was not noted in the meeting minutes.

In summary, we recommend the budget originally adopted for a fiscal year should be clearly noted and attached to the meeting minutes. Additionally, all budget amendments should be noted in meeting minutes and summarized separately on sheets detailing the budget amendments or clearly reflected on the summary with a final budgeted amount.

We strongly recommend reviewing the *Michigan Department of Treasury – Uniform Budget Manual for Local Units of Government* which is readily available on the Treasury's website: http://www.michigan.gov/documents/UniformBudgetManual_16634_7.pdf

Chart of Accounts

We understand the Village intends to implement a computerized accounting system in 2005. During implementation, we recommend the Village establish its chart of accounts based on the *Michigan Department of Treasury – Uniform Chart of Accounts for Counties and Local Units of Government*. The new chart is based on the GASB 34 reporting format. It is also available on the Treasury's website: http://www.michigan.gov/documents/uniformchart_24524_7.PDF

Village of Honor

Comments and Recommendations

Capital Asset Inventory

The capital asset inventory should include only items designated as capital outlay. From January 1, 2004 forward, the Village will be required to capitalize any new infrastructure assets as part of GASB 34 compliance. It is important to maintain records of capital assets that include date of service, purchase or implementation costs, estimated life of the asset and any residual value.

Closing Comments

We will be happy to discuss any of these recommendations with you and assist you in their implementation. As a matter of course, we will forward the necessary copies of this audit report to the State Treasury Department. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise on these financial statements or our audit, please call upon us.